

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 PA-01 PRS-01 IGA-02 DODE-00 /084 W  
-----261009Z 124766 /21

R 251838Z MAR 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 0706

LIMITED OFFICIAL SECTION 1 OF 2 LISBON 2417

PASS TREASURY FOR SYVRUD

E.O. 11652: N/A  
TAGS: ECON, PO  
SUBJECT: ECONOMIC DEVELOPMENTS: DISINTERVENTION IN FOCUS

REF: A) LISBON 1984 B) LISBON 2203 C) LISBON 1554

SUMMARY. RECENT DEVELOPMENTS HAVE BROUGHT GOP'S POLICY OF DISINTERVENTION OF PRIVATE FIRMS INTO FOCUS. THE GOVERNMENT'S PERFORMANCE WILL BE CLOSELY WATCHED. DEMOCRATIC PARTIES IN ASSEMBLY HAVE STRONGLY ENDORSED GOP POLICY TOWARD EUROPEAN COMMUNITY. END SUMMARY.

1. DISINTERVENTION IN FOCUS: GOP'S POLICY OF PROGRESSIVE WITHDRAWAL OF FINANCIAL SUPPORT FROM "INTERVENED" FIRMS HAS COME INCREASINGLY INTO FOCUS AS A RESULT OF THE FOLLOWING DEVELOPMENTS:

A. - GUERIN DISPUTE: FOLLOWING GOP DECISION TO RETURN CONTROL OF LARGE GUERIN AUTOMOBILE (VOLKSWAGEN) FIRM TO OWNER/ MANAGER JORGE MACHADO, WORKERS OCCUPIED FIRM OFFICES MAR 22. GOP RESPONSE WAS PROMPT; ARMED POLICE REMOVED PICKET LINES FOLLOWING MORNING, ALLOWING MACHADO AND STAFF TO  
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ENTER PREMISES. WORKER LEADERS THERE UPON CALLED STRIKE, WHICH MANAGEMENT CLAIMS IS SUPPORTED BY ONLY 40 PERCENT OF WORK FORCE, PRIMARILY OFFICE STAFF. GUERIN MANAGEMENT HAS ASSERTED STRIKERS WILL BE DOCKED FOR ABSENCE. WORKER LEADERS MET WITH REPRESENTATIVES OF COMMUNIST-DOMINATED NATIONAL LABOR CONFEDERATION AND PS DEPUTIES MAR 24 TO DISCUSS FUTURE TACTICS. GUERIN AFFILIATES IN FARO AND

COIMBRA HAVE ACCEPTED DISINTERVENTION.

B. - ASSEMBLY REJECTS DISINTERVENTION CENSURE: MAJOR DEMOCRATIC PARTIES VOTED TOGETHER MAR 22 TO DEFEAT COMMUNIST-BACKED MOTION CENSURING GOP DISINTERVENTION POLICY. IN DEFENDING GOP POSITION, SOCIALIST FLOOR LEADER SALGADO ZENHA TERMED COMMUNIST PROPOSAL "DEMAGOGIC AND ANARCHO-POPULIST."

C. - WARNING: COMMUNIST-LED SECRETARIAT OF INTERVENED FIRMS WARNED AT A MAR 21 PRESS CONFERENCE THAT IMPLEMENTATION OF GOP DISINTERVENTION POLICY WOULD MEAN EXTENSIVE LAY-OFFS OF WORKERS.

D. - GOP REAFFIRMS END TO PROVISIONAL INTERVENTION: FOLLOWING FEB 22 COUNCIL OF MINISTER MEETING, GOP REASSERTED ITS COMMITMENT TO END SYSTEM OF PROVISIONAL INTERVENTION BY MAR 31 (REF A). GOVERNMENT COMMUNIQUE EMPHASIZED THAT GOP WOULD NOT END SUPPORT FOR FIRMS WHOSE LONGER-TERM ECONOMIC VIABILITY HAD BEEN ESTABLISHED. ENTIRE QUESTION OF STATE INTERVENTIOON, COMMUNIQUE ADDED, WOULD BE REVIEWED FOLLOWING GOP SUBMISSION TO ASSEMBLY OF BILL ON SUBJECT.

2. HARMONY ON EEC: IN MAR 18 ADDRESS TO ASSEMBLY OF REPULIC, PRIME MINISTER SOARES CLAIMED HIS RECENT TOUR OF EUROPEAN CAPITALS IN SUPPORT OF PORTUGAL'S BID FOR EC MEMBERSHIP HAD ATTAINED ITS OBJECTIVES (REF B). HE STRESSED THAT PORTUGUESE MEMBERSHIP EFFORT SHOULD BE "TRULY NATIONAL PROJECT." OTHER DEMOCRATIC PARTIES AGREED. ON MAR 22 THEY VOTED WITH SOCIALISTS ON RESOLUTION - SPONSORED BY SOMETIMES HOSTILE SOCIAL DEMOCRATIC LIMITED OFFICIAL USE

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PARTY - STRONGLY ENDORSING GOP'S EC POLICY. COMMUNISTS AND SINGLE FAR LEFT DEPUTY VOTED AGAINST.

3. MEASURES PASSED: ASSEMBLY OF REPUBLIC APPORVED MAR 24 BILLS PRESENTED BY GOVERNMENT TO IMPLEMENT SOME OF THE ECONOMIC REFORMS ANNOUNCED FEB 25 (REF C). MEASURES INCLUDED EXTENSION OF 60 PERCENT IMPORT SURCHARGE TO ADDITIONAL COMMODITIES, INCREASE OF INTEREST RATE ON CERTAIN TREASURY BILLS TO 11.5 PERCENT, INTRODUCTION OF EXPORT INCENTIVES, AND APPROVAL OF INDUCEMENTS FOR IMMIGRANT REMITTANCES. MEASURES WILL BE REPORTED IN DETAIL AS SOON AS FULL TEXTS AVAILABLE.

4. HOPEFUL SIGNS: THE WEEK ALSO BROUGHT THE FOLLOW- IN MINOR BUT ENCOURAGING DEVELOPMENTS:

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-----261009Z 124802 /21

R 251838Z MAR 77  
FM AMEMBASSY LISBON  
TO SECSTATE WASHDC 0707

LIMITED OFFICIAL USE SECTION 2 OF 2 LISBON 2417

PASS TREASURY FOR SYVRUD

- POST OFFICES OPEN: AFTER GOP DOCKED STRIKING POSTAL  
WORKERS DAY'S PAY FOR MAR 12 DEFIANCE OF GOVERNMENT DE-  
CISION TO OPEN MAJOR CITY POST OFFICES FOR SATURDAY  
SERVICE, POST OFFICES OPENED WITHOUT INCIDENT MAR 19.  
- RETURNEES TO DEPART HOTELS: HIGH COMMISSIONER FOR  
RETURNEES FROM PORTUGAL'S FORMER AFRICAN COLONIES HAS  
REAFFIRMED GOP COMMITMENT TO REMOVE RETURNEES FROM COUN-  
TRY'S THREE AND TWO STAR HOTELS BY MAR 31. RETURNEES  
WERE EASED OUT OF FIRST CLASS AND LUXURY HOTELS AT  
END OF 1976. THEIR PRESENCE HAD BEEN SERIOUS OBSTACLE TO  
GOP HOPES FOR RECOVERY OF FOREIGN TOURIST INDUSTRY.

4. EXCHANGE RATE: LISBON CHECK BUY RATE CLOSED MAR 24  
AT 38.619 ESCUDOS TO THE DOLLAR.

5. COMMENT: GOP PERFORMANCE ON DISINTERVENTION WILL BE  
AN IMPORTANT FACTOR IN RESTORING THE CONFIDENCE OF THE  
PRIVATE SECTOR. ITS FIRM HANDLING OF THE GUERIN DISPUTE  
TO DATE HAS BEEN ENCOURAGING. GUERIN, HOWEVER, MAY PROVE  
TO BE AN UNFORTUNATE CHOICE FOR A TEST CASE. MACHADO,  
ITS OWNER, IS CONSIDERED A POOR ADMINISTRATOR AND, WE  
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UNDERSTAND, IS CURRENTLY UNDER INDICTMENT FOR BUSINESS  
IRREGULARITIES.

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## Message Attributes

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